



Rise Policy Paper

Policy ID	EQ268
Policy	Abolish VAT in 2 stages
Short Description	The 2 stages will be accomplished within 2 years

You can change how you present the policy as you feel best suits. For example, you may wish not to have it broken down into present state and future state, but rather have a single section that describes the policy. Change this template to suit your needs.

Present State:

Most people probably know how VAT works, but I have met people who don't so first I'll bore you with the workings. While VAT is collected throughout the business cycle in the end it's a tax on the consumer. For example, if a business buys a product for £1.20, then 20p of the total price is VAT (assuming the supplier is VAT registered). The 20p is called input tax. The business then sells the product, let's say for £2.40 of which 40p is VAT. The 40p is output tax. When the business then pays the VAT, they deduct the input tax from the output tax and passes the resulting 20p over to HMRC. The business has made £1 on the sale of the product (bought for £1, sold for £2) as they've simply collected tax. The only person paying tax is the end consumer (40p). This is a simplistic description of VAT. The chain can be longer and there are exemptions on certain products and services. But, as a whole, it works as described.

The problem is VAT is a regressive tax. This means the poorer you are, the more of your income you will spend on VAT. Across the income spectrum there is a marked difference with the poorest 10% paying 12.5% of their income on VAT while the top tenth of earners only pay 5% VAT⁽¹⁾. In fact, the poorest tenth pay a higher tax percentage across the board. The poorest 10% of households paid on average 42% of their income in tax in 2015/16 while richest 10% of households paid on average just 34.3%⁽²⁾. On top of paying a higher percentage tax rate, the poorest are burdened with the poverty premium^{(3), (4)}. But that is a discussion for another day.

An important thing reminder at this stage is, in an economy we spend and tax. We don't tax and spend as they try to persuade us. I'll avoid the usual arguments that take place between economists about magic money trees and the inflationary / devaluation effects of too much money swilling around in the economy. The important factor here is that VAT is a brutal tax. Brutal may seem a strong word but think about it this way. You're having a collection for a leaving present for a



colleague. The CEO puts in £10 and then insists the unpaid intern makes up the shortfall for the gift by donating £25. At first you may have been impressed with the generosity of the CEO as he grandly added his £10, but that would quickly turn to disgust, and I suspect if you were in the position to do so you'd dip in your pocket to help the intern. This reflects our society. The wealthier pay the smaller amount as a percentage of their income, the poor the highest and those in the middle donate to try minimise inequality.

Our tax system is just one of many society imbalances that pauperise the poor. In the case of VAT, it was first introduced in France in 1954 and became a requirement to be a member of the European Economic Community (EEC).

The UK first introduced VAT on joining the EEC in 1973. The six original members of the EEC harmonised their VAT regimes to reduce the distortion of export refunds or in short to ensure that goods were sold between states on a level playing field.

Because VAT amounts to 18% of tax receipts there is a sense created it is an important revenue earner for government. Again, I mention that we spend and tax. Tax reduces the deficit between what was spent and what is returned. The all-important deficit that the Tories were going to wipe while they knew all along couldn't be achieved with austerity. That's why they don't mention the deficit these days.

VAT is also the International Monetary Fund's "tax of choice" and over 160 countries have now introduced it and it accounts for 20% of tax revenue globally. In fact the UK has one of the less draconian systems, but still far too draconian for Rise to accept.

Future State:

When I was researching VAT, I came across an article in the Guardian and one in the Independent. Both gushing about the wonders of VAT and how it's a wonderful revenue earner for the government. To be fair the Independent article was written back in 1995 and did recognise VAT as "cumbersome and complicated". Funny how we come to accept something as the norm over time.

Rise will abolish VAT. Even if there are issues or risks identified, we will find resolutions for issues, mitigate risks, and scrap VAT as soon as possible. It being a regressive tax making the poor poorer is easily enough to bury it in itself, but the fact is, on top of the fairness factor, all of society will benefit from its removal.

There are many advantages to abolishing VAT. One of the key advantages is that it removes a large piece of bureaucracy because the Independent was spot on; VAT is cumbersome and complicated. Just look at the government page covering VAT on food alone to get some idea of how complicated it can be [\(5\)](#).

Then there is the 20% surcharge placed on all goods. Could a government think of a better way to stifle the economy? This is not about making us consumers of tat. This is about removing a surcharge on the necessities of life. This is the plumber who quotes you for a job and then adds a 20% charge on top. That or he offers to do it for cash for a better price and risks being prosecuted for tax evasion.



There is a risk with abolishing VAT. In some cases VAT can act as a subsidy to a business. A company selling cakes to supermarkets for example. The cakes are zero rated regardless of the fact they are packaged, but the packaging they are in is standard rated to the cake producer. The cake producer claims back the VAT he paid for packaging, but doesn't charge any VAT, which means he ends up being credited each quarter. Once we abolish VAT the producer will no longer be able to claim back VAT, but in theory it shouldn't matter because he didn't have to pay it in the first place. Truth is though the packaging supplier might see the removal of VAT as an opportunity to take up some of the slack and increase prices. We have recorded this as a risk and we will, as part of our standard policy management process, look at ways to mitigate. We have a wide range of policies that will benefit small businesses and it may be that our present policies will cover off the risk.

Finally, Rise will abolish VAT in 2 stages. Importantly it will form an integral part of restructuring our tax system away from the emphasis on regressive taxes to a tax system that reduces inequalities. It is worth looking at our [taxation key policies](#) (overarching policies that lay out our objectives as a party) and our [specific policies](#) as detailed on our policy hub.

References

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